

April 1974

THE ECONOMIC CONSEQUENCES OF SALT I:

AN UPDATE

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PREPARED FOR

THE U.S. ARMS CONTROL AND DISARMAMENT AGENCY

PREPARED BY

GENERAL RESEARCH CORPORATION

ECONOMIC RESOURCES AND PLANNING DEPARTMENT

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The judgments expressed in this report are those of GRC and do not necessarily reflect the views of the United States Arms Control and Disarmament Agency or any other agency of the United States government.

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1 INTRODUCTION AND SUMMARY

This study updates GRC's earlier study entitled The Economic Consequences of SALT I: A National Assessment, the data collection phase of which was completed about December 1972. The purpose of the original study was to assess the short-run impacts of SALT I and predict its longer-range impacts in the context of domestic local economies. Since many of the long-range employment and economic impacts had not yet been realized at that time, it was believed that the present update would be useful. This study quantifies, rather than predicts, the economic consequences of SALT I two years after its implementation.

The earlier study identified three regional areas as being of primary concern: Huntsville, Alabama; Taunton, Massachusetts; and Conrad, Montana. These are areas that were noted as being subject to potential employment and economic impacts. The previous study also projected "savings" which could be attributed to SALT I. There was a large degree of uncertainty connected with these projected savings. The present study was undertaken to remove some of the uncertainties in the original predictions. It is not intended to be a self-contained analysis, but rather an addendum to the original study.

Data collection trips were made to the three impacted regions. Interviews were conducted with regional employment analysts, local leaders, bankers, industrial promoters, and concerned citizens. Data were gathered on employment, municipal facilities, the effects of government programs, and local development activity in order to assess the changing conditions of these communities. Additionally, the views of Messrs. John Lynch and Joe McGurn of the Office of Economic Adjustment (OEA) on the situation in Conrad and Taunton were obtained. The OEA is responsible for assisting local communities in their efforts in industrial development.

The results of the trip, plus analyses of other recent data, indicate that the impacts of SALT I on these three communities have been largely ameliorated as a result of Government assistance, fortuitous circumstance, or energetic local action.

Huntsville has experienced some SALT-induced reductions in both Government and defense contractor employment in a period of generally declining defense-associated employment. However, the economic and employment situation in Huntsville is still reasonably healthy, due largely to a growth in its manufacturing sector.

In Massachusetts, the expected layoffs in areas north of Boston did not occur, because of an additional contract won by the Raytheon Company. This contract, for the design and construction of another large radar,

utilized the same technical and professional skills as did the Safeguard MSR, and this provided work for those employees. However, the North Dighton plant, center of most Safeguard-related production activity, was closed. Raytheon instituted an effective employee placement program for those who wished to participate. Because of this program, and the geographical dispersion of Raytheon's North Dighton employees, the total employment and economic effects have been minor.

There are three reminders of past Safeguard activity in Conrad, Montana: (1) an active, citizen-run Economic Development Corporation, (2) excellent municipal facilities, and (3) a slightly over-extended business infrastructure. The Economic Development Corporation, with the assistance of OEA, is pursuing an opportunity for industrial development in the form of a steel recycling plant. Largely because of Safeguard financing, the community has new and adequate educational facilities, and water and wastewater facilities; moreover, it has no bonded indebtedness. There are probably too many local businesses for the current population to support; if the Economic Development Corporation is not successful in bringing new industry to Conrad, some businesses will probably fail.

Table 1.1 summarizes the actual unemployment trends in these areas. Generally, all three areas have initiated new or renewed local development programs. Overall, the most effective government assistance appears to have been advice and guidance to local entities engaged in industrial promotion.

TABLE 1.1
SUMMARY OF ACTUAL AREA UNEMPLOYMENT RATES (PERCENT)

	1971	1972	1973	Change	
				1971-1972	1972-1973
Huntsville, Ala. (SMSA)	4.6	4.2	4.2	-0.4	0.0
Taunton, Mass. (Labor Market Area)	7.2	7.2	8.0	0.0	0.8
Fall River, Mass. (SMSA)	---	8.0	7.6	---	-0.4
Pondera, Mont. (County)	5.8	6.6	6.4	0.8	-0.2

2 HUNTSVILLE, ALABAMA

The Huntsville situation is discussed in three parts: Sec. 2.1 details the direct employment losses attributable to treaty limitations on Ballistic Missile Defense (BMD) programs; Sec. 2.2 discusses area employment trends and the impacts of direct and indirect employment reductions on these trends; and Sec. 2.3 discusses the present economic conditions in the Huntsville area.

The previous study predicted the expected employment effects of SALT I's BMD restrictions. It was expected that the area would be affected by a reduction in Safeguard Systems Command employment. These layoffs have now occurred. In addition, there has been some draw-down in the Corps of Engineers (CoE) and contractor employment associated with the Site Defense program and the US Army Advanced Ballistic Missile Defense Agency (ABMDA).

2.1 SALT EMPLOYMENT IMPACTS

Current Safeguard employment levels and the change in employment from the previous year are detailed in Table 2.1. (This supplements Table 6.4 of the previous report; comparison indicates that employment levels are slightly lower than projected.) This data includes employment for SAFLOG, the Safeguard Logistics Command, but not for the Corps of Engineers. The Huntsville District Corps of Engineers, initially established to support Safeguard activities, currently employs 336, down from a previous high of 400.* The CoE office has been assigned other responsibilities and no longer depends on Safeguard activity.

There have been no direct Government employment impacts on site Defense or the Advanced Ballistic Missile Defense Agency, as all reductions in these programs have been manifested in contractor employment. (The causal relationships between the treaty and these programs are further discussed in Sec. 5.) Table 2.2 summarizes the direct employment loss in the Huntsville area. The numbers shown in Table 2.2 are subsequently used with the employment multiplier generated in the previous study to show the total employment impacts.

Tables 2.3 and 2.4 show the declining level of Federal and defense contractor employment in the Huntsville area. In general, contractor employment has declined at a fairly rapid rate since 1965. Federal civilian employment also has declined somewhat. Area employment peaked in 1966 (see Table 6.1 of the previous study) and has fluctuated since then (see Sec. 2.2).

* Mr. Brown, Corps of Engineers, Public Information Officer, Huntsville, March 1974.

TABLE 2.1

SAFEGUARD EMPLOYMENT, HUNTSVILLE SMSA

	FY 1974 ¹	Change From FY 1973 ²
Total Employment	1,025	-474
Civilian	952	-474*
Military	73	--
Payroll	\$21,100,000	-\$9,554,000

Source: 1. Safeguard Public Information Office, Huntsville
 2. Safeguard Personnel Training and Force Development Office, Huntsville

*Of these 474 persons, 70 retired, 120 were laid off, and the rest presumably found other government jobs, probably outside Huntsville. In any event, these jobs were lost to the Huntsville area.

TABLE 2.2

DIRECT EMPLOYMENT LOST AS A CONSEQUENCE
OF SALT I, HUNTSVILLE SMSA

Safeguard	474
Corps of Engineers*	24
Civilian Contractors**	123
ABMDA	93
Site Defense	30
TOTAL LOSSES	621

*Corps of Engineers Public Information Office, Huntsville

**Huntsville Times, January 12, 1974

TABLE 2.3

TOTAL FEDERAL CIVILIAN EMPLOYMENT, HUNTSVILLE SMSA
1969-1972

<u>Year</u>	<u>Employment</u>	<u>% Change</u>
1969	18,133	
1970	17,086	-5.77
1971	17,225	0.81
1972	17,106	-0.69

Source: US Civil Service, Manpower and Statistics

TABLE 2.4

DEFENSE CONTRACTOR EMPLOYMENT,* HUNTSVILLE SMSA
1965-June 1973

<u>Year</u>	<u>Employment</u>	<u>% Change</u>
1965	17,755	
1966	16,547	-6.8
1967	16,103	-2.7
1968	13,011	-19.2
1969	11,218	-13.8
1970	10,252	-8.6
1971	10,266	+0.1
1972	9,523	-7.2
June 1973	8,523	-3.8

* This includes firms engaged in (1) guided missiles and space vehicles, (2) commercial research and development laboratories, and (3) engineering and architectural services.

Source: Alabama Department of Industrial Relations

2.2 EMPLOYMENT TRENDS

In spite of defense-related layoffs, unemployment percentages remain below both state and national rates, and the unemployment ratio in the Huntsville area has not advanced in direct proportion to aerospace and defense layoffs. One reason for this is that while aerospace workers were being laid off in the past, community leaders were having a relatively high degree of success in bringing new industry into the community and creating a more diversified economy. Another reason is the probable outflow of professional and technical people. While there is insufficient data at this time to determine the number who have either retired or left the area (or will upon layoff), most unemployed defense workers must look outside the area for employment opportunities.

Population increases in the Huntsville SMSA since the 1970 census have been at a lower rate than the natural birth rate, reflecting some level of emigration from the area.*

In spite of this decline, the total area employment is greater than in 1971 (although it has declined slightly since 1972). The service sector, which includes most defense contractor employment as well as the traditional services, has declined, but not nearly as rapidly as defense contractor employment. Thus while defense-related employment is declining, other service employment, as in the rest of the country, is increasing.** Table 2.5 presents total area employment (an update of the data presented in Table 6.1 of the previous study). Note that 1973 total employment is down slightly from the high of 1966, and up from 1971. Note also that manufacturing is up about 8 percent.

Using the figures presented in Table 2.2 and the employment multiplier that was developed in the previous study, we estimate that the total SALT-induced employment impact amounts to 2,235 jobs. This is approximately 2.4 percent of the August 1973 employment level. Note, however, from Table 2.5 that the decline in total employment from 1972 is 1,200 or 1.3 percent. Thus, growth in other industries in the Huntsville area has partially offset SALT-related employment impacts.

2.3 ECONOMIC CONDITIONS

Huntsville economic indicators show that, in general, conditions are improving. For example, Table 2.6 (an extension of Table 6.7 in the previous report) shows an increase of 15.5 percent in annual retail sales, perhaps the best indicator of the economic health of a region.

* University of Alabama, Special Census, 1972.

** Alabama Dept. of Industrial Relations, Area Manpower Review, 1973.

TABLE 2.5

TOTAL EMPLOYMENT AND UNEMPLOYMENT, HUNTSVILLE SMSA

In Thousands of Jobs

	1972 Annual Average	August 1973
Total Civilian Work Force	98.2	97.3
Total Unemployment	4.2	4.2
Total Employment	94.0	92.8
Nonagricultural Employment	90.2	89.7
Wage & Salary	80.9	80.6
Manufacturing	14.1	15.2
Durable Goods	8.6	9.0
Fabricated Metals	1.0	1.2
Machinery, inc. Elect.	4.9	5.0
Other Durable Goods	2.7	2.8
Nondurable Goods	5.5	6.2
Food & Kindred Prods.	1.5	1.6
Paper, Printing & Publ.	0.5	0.5
Other Nondurable Goods	3.5	4.1
Nonmanufacturing	66.8	65.4
Construction	2.5	2.7
Trans., Comm., & Util.	1.7	1.7
Wholesale & Retail Trade	12.8	13.1
Finance, Ins. & Real Estate	2.2	2.3
Service & Miscellaneous	16.6	16.1
Government	31.0	29.5
All Other Nonagricultural	9.3	9.1
Agricultural	3.8	3.1

Source: Alabama Department of Industrial Relations, Area Manpower Review.

TABLE 2.6

HUNTSVILLE ANNUAL RETAIL SALES

In Thousands of Dollars

	<u>1972</u>	<u>1973</u>	<u>% Change</u>
<u>Retail Concerns</u>			
Food	59,301	65,544	10.5
General stores with food and gas	5,485	5,741	4.7
General Merchandise	38,025	41,013	7.8
Apparel	18,206	19,173	5.3
Furniture, Furnishings, & Appliances	17,107	17,022	0.5
Automotive	125,292	130,740	4.3
Gasoline Service Stations	21,938	24,765	12.9
Lumber and Building Materials	19,850	21,282	7.2
Hardware and Farm Implements	14,546	16,929	16.4
Eating Places	32,765	34,860	6.4
Drug Stores	12,377	12,380	0.0
All Other Retail Concerns	89,636	135,683	51.4
Total by Retail Concerns	454,527	525,131	15.5
<u>Nonretail and Unclassified Concerns</u>			
Total by Nonretail and Unclassified Concerns	82,845	97,453	17.6
Total, All Sales at Retail	537,372	622,584	15.8

Source: Graduate School of Business, University of Alabama.

Note: The preliminary 1972 figures presented in Table 6.7 of the previous study have been revised and the substantially higher figures are reflected here. With these revised 1972 figures, the 1971-1972 total percentage growth in retail sales was 35.4%. This trend, higher growth in 1972 than in 1973, is consistent with employment trends.

Table 2.7 shows the number of electrical connections which, while not at the level of the heavy growth of the early 1960s, indicates an increase in residential and industrial growth.

Additional data from the University of Alabama's Graduate School of Business for the 1972-1973 period indicate that bank deposits were up 7 percent, savings were up 27 percent, and per capita income was up 7 percent (to \$3,550). (The Consumer Price Index was up 3.7 percent in the 12 month period ending January 1973.*) In addition, during 1973 the Huntsville SMSA acquired 30 new plants and over 3,000 additional manufacturing jobs.** All this reflects active industrial promotion and an area leadership that realizes it must increase the area's industrial base to compensate for declining defense employment.

*The Consumer Price Index for January 1973, US Department of Labor.

**Huntsville Business Trends, Huntsville Chamber of Commerce, March 1974.

TABLE 2.7

ELECTRICAL CONNECTIONS, HUNTSVILLE
1963-1973

<u>Year</u>	<u>Connections</u>	<u>% Change</u>
1963	45,891	
1964	51,581	11.0
1965	55,412	6.9
1966	57,384	3.4
1967	57,411	0.1
1968	57,987	0.1
1969	58,856	0.1
1970	59,891	1.7
1971	61,131	2.0
1972	62,360	2.0
1973	63,715	2.1

Source: Huntsville Utilities Commission.

3 TAUNTON, MASSACHUSETTS

The current situation in Taunton was precipitated by Raytheon's decision to close its assembly plant in North Dighton (adjacent to Taunton). At the time of this announcement in November 1972, the plant employed 1400 people. Closure was completed by June 1973. Large employment impacts in the Taunton area were ameliorated by the geographic dispersion of employees and by a vigorous employee placement program conducted by Raytheon.

As before, this section comprises three subsections. The first, Sec. 3.1, discusses the status of plant employees preceding and during the closures. Section 3.2 shows the impacts of employment layoffs on the local labor situation. The third, Sec. 3.3, discusses the current economic situation and local activities in industrial development.

The previous report showed Raytheon estimates for employment layoffs in several areas west and north of Boston; these layoffs would have affected professional and technical people involved in the design of the MSR. Fortunately, Raytheon won a 40-million-dollar Air Force contract for the design and construction of a large radar (COBRA DANE). This effort uses technology similar to that involved in the design of the MSR. Thus technical employees who would have been laid off are still employed.

The principal impact in Massachusetts, therefore, centers around the closure of the North Dighton plant 30 miles south of Boston. The decision to close was made subsequent to the MSR contract cancellation. The plant had been involved in the assembly of MSR radar equipment and some radars for the FAA. It was decided that it was not economically feasible to continue production of just the FAA equipment at this facility.

3.1 PLANT EMPLOYMENT

Following the November 1972 announcement of the decision to close the plant, there was a gradual reduction in employment ending with plant closure in June 1973. About one-half of the 1.7 million-square-foot facility is currently used as a warehouse for Raytheon, but this activity employs only about 50 people. Activity in the North Dighton plant was assembly-oriented rather than design-oriented. The new Air Force radar contract, which was more design-oriented, did not do anything to ameliorate the employment situation in North Dighton. The assembly of radars for the FAA was transferred to the Raytheon plant in Waltham, as will be discussed in Sec. 3.2. Many of the North Dighton Raytheon employees were transferred with this activity.

A severe impact in the area was avoided by two circumstances. One was the geographical dispersion of North Dighton employees. Table 3.1 shows the place of residence of employees by labor market area. About

TABLE 3.1

RAYTHEON NORTH DIGHTON PLANT EMPLOYEES
BY LABOR MARKET AREA OF RESIDENCE

As of December 1972

	<u>Employees</u>
Taunton	550
Brockton	90
Fall River	500
New Bedford	80
Providence	170
Other	10
TOTAL EMPLOYEES	1,400

Source: Raytheon Company

one-third live in the Taunton Labor Market Area and one-third in the Fall River Labor Market Area. This dispersion avoided the potentially severe impacts that could have occurred if all employees had resided in the Taunton area.

The second activity which helped avoid a more serious impact was the employee placement program initiated by Raytheon. Table 3.2 shows the results of this program as of May 1973. Two months later, at the end of the program, there were approximately 50 more applications and about 60 more employees placed at other Raytheon sites; however, detail is not available on the employee types.

The program maintained continuously updated listings of Raytheon job openings in files at the North Dighton plant. Company positions at any location were not to be filled without the prior approval of program managers. Thus, qualified North Dighton employees had first choice of any job openings throughout Raytheon. In addition, listings of jobs in the local areas were acquired and continually updated. These were also kept on file in the North Dighton plant. The Massachusetts Division of Employment Security cooperated by furnishing its job listings and by helping match employee skill codes with the available jobs.

TABLE 3.2

RAYTHEON PLACEMENT OF NORTH DIGHTON PLANT EMPLOYEES

As of May 1973

	<u>Applied for Placement</u>	<u>Placed at Raytheon</u>	<u>Placed at Other Firms</u>	<u>Total</u>
Professional	--	244	65	309
Office	--	82	58	140
Hourly	--	119	85	204
TOTAL	~700	445	208	653

SOURCE: Raytheon Corporation

In summary, the program had a very high overall success rate. In particular, 96 percent of the 50 minority applicants were placed. The program manager estimates that most of those who were placed did not have to relocate.

3.2 LAYOFF IMPACTS ON THE LABOR FORCE

Table 3.3 shows the disposition of the 550 employees residing in the Taunton labor market area. Of these, 335 were laid off and the rest were either transferred, placed within Raytheon, or placed with other companies. Data are not available, but it has been indicated by the Taunton labor market analysts that many of these employees were female members of the secondary labor market. The problem in relocating these individuals was that they are experienced in electrical assembly work and that alternative employment would pay only \$2.00 per hour while Raytheon paid from \$2.70 to \$2.80 per hour. Raytheon's employee placement program manager noted that he had over 100 job listings at \$2.00 per hour but no employee interest in these jobs. In August 1973, there were 275 unemployment claims due to the Raytheon plant closure, and about 80 percent of the claimants were female.

Tables 3.4 and 3.5 give statistics on employment and unemployment in the labor market areas of concern. Most towns in the Taunton Labor Market Area (Table 3.4) are within 10 miles of the plant. A 15-mile radius includes the major cities of the other SMSAs (as shown in Table 3.5) except Boston, which is approximately 30 miles away.

TABLE 3.3

FINAL DISPOSITION OF RAYTHEON EMPLOYEES
LIVING IN THE TAUNTON AREA

	<u>Laid Off</u>	<u>Placed</u>	<u>Transferred</u>	<u>Total</u>
Professional	25	75	19	119
Office	82	47	8	137
Hourly	228	54	12	294
TOTAL	335	176	39	550

Source: Raytheon Company

TABLE 3.4

TAUNTON LABOR MARKET AREA EMPLOYMENT DATA
1972-1973

	<u>Feb. 72</u>	<u>Aug. 72</u>	<u>1972 Average</u>	<u>Feb. 73</u>	<u>1973 Average</u>
Employment	29,400	30,150	30,750	29,200	29,750
Unemployment Rate	8.7%	6.2%	7.2%	8.6%	8.0%
Manufacturing	10,220	9,930		9,700	

Source: Massachusetts Division of Employment Security.

TABLE 3.5

EMPLOYMENT IN SMSAs ADJACENT TO THE TAUNTON AREA
In Thousands of Jobs, As of January 1974

	Non-Agricultural Employment	Manufacturing Employment
Boston ¹	1,290	257
Brockton ¹	55	15
Fall River ¹	45	20
New Bedford ¹	56	26
Providence ²	373	138
TOTAL	1,819	456

Source: 1. Employment Review, Massachusetts Division of
Employment Security, January 1974.

2. New England Economic Indicators, Federal
Reserve Bank of Boston, February 1974.

Table 3.6 shows lost employment for each labor market area and for the whole region over the long term. The direct employment impact was 335 for the Taunton area. Direct employment in the other areas was assumed to be 50 percent of the plant's employees living in that area, as about 50 percent of the employees found other jobs through Raytheon's placement program. The indirect employment impacts were calculated by using the employment multipliers developed in the previous study. When computing the total percentage, Boston employment was included, as it was assumed that a 30-mile commuting distance is not unreasonable. Manufacturing employment is shown in order to give some indication of alternative employment opportunities.

The employment multiplier was referred to in the previous study as an estimating technique designed to show the total employment effect which might have occurred. This technique is used here to show the potential impacts if there had been no additional employment opportunities and if unemployment compensation had not softened the secondary impacts. The actual employment impacts are reflected in Table 3.7, which shows unemployment trends.

TABLE 3.6

TOTAL POSSIBLE EMPLOYMENT LOSS DUE TO RAYTHEON PLANT CLOSURE

By Labor Market Area

	<u>Direct</u>	<u>Direct as % of 1974 Mfg. Empt.</u>	<u>Direct & Indirect</u>	<u>% of 1974 Labor Force</u>
Taunton	335	3.4	1600	4.9
Brockton	45	0.3	215	0.4
Fall River	250	1.3	1200	2.7
New Bedford	40	0.2	190	0.3
Providence	85	0.1	410	0.1
TOTAL	755	0.2	3615	0.2

TABLE 3.7

ACTUAL UNEMPLOYMENT TRENDS IN MASSACHUSETTS AREAS

Percent

	<u>1973 Average</u>	<u>1972 Average</u>	<u>Change</u>
Boston [*]	6.1	5.8	0.3
Brockton ^{**}	9.1	8.3	0.8
Fall River ^{**}	7.6	8.0	-0.4
New Bedford [*]	7.5	8.5	-1.0
Providence [*]	6.1	6.5	-0.4
Taunton [†]	8.0	7.2	0.8

Source: ^{*}New England Economic Indicators, Federal Reserve Bank
of Boston, February 1974.

^{**}Area Manpower Review, Massachusetts Division of Employment
Security.

[†]Massachusetts Division of Employment Security.

It should be noted here that at the time of the Raytheon closure the Defense Department made the decision to close the Boston Naval Shipyard, Chelsea Naval Hospital, First Naval District offices, Hanscom Field, Otis Air Force Base, Westover Air Force Base, and a naval facility nearby in Rhode Island. This involved 6,800 civilian and 5,300 military positions in Massachusetts and 4,000 in Rhode Island.* A Taunton Chamber of Commerce representative indicated that none of these personnel were living in the Taunton area. However, this does affect the employment of some surrounding areas, particularly Boston. Table 3.7 shows the actual unemployment trends in the areas of concern. It should be noted that the unemployment rate in Providence decreased in spite of the Raytheon layoffs. The Brockton unemployment rate gained, however, at a higher rate than the Raytheon layoffs could explain.

3.3 CURRENT SITUATION

In general, economic indicators in the Taunton area are positive. There have been no business failures stemming from the closure. As Table 3.8 indicates, the assessed valuation is increasing. This is in spite of the generally unfavorable economic condition that exists throughout the state.

Local representatives indicated that they found that some of the results of the closure were positive. These results have been the opportunity for assistance from federal agencies (primarily the Office of Economic Adjustment), now advising Taunton in industrial promotion (details are discussed further below).

TABLE 3.8
TAUNTON ASSESSED VALUATION
1970-1973

	Millions of Dollars	Percent Change
1970	62.7	
1971	64.3	2.6
1972	65.7	2.2
1973	68.4	4.1

Source: Taunton Chamber of Commerce.

* Report of the Massachusetts Commission on Federal Base Conversion, January 1974.

The North Dighton plant is leased to Raytheon through 1979. Raytheon is engaged in a very active campaign to locate a replacement tenant for the plant. The plant is an old textile mill, and there is one severe drawback in that the existing sewer system is inadequate for industrial use. The region is currently building an area sewage system to be completed in 1975. However, the township of North Dighton has yet to decide whether or not it desires to finance a connection to the area plant. There are some elevation differences and a pumping booster station would be required.

With these considerations in mind, the Office of Economic Adjustment recommended that attention be focused on long-term job creation through support for a locally run industrial development program.

The head of the Taunton Industrial Development Commission noted that one of the obstacles to industrial development was the lack of a fully developed industrial park controlled by the commission. This lack of control has cost the area at least one new corporate resident. As a step toward acquiring industrial park space, the city is negotiating for the acquisition of 600 acres, about one-half of a state school site. The advantage of this would be a commission-controlled site with a water and sewer system which could be connected with the regional system.

With the help of the Office of Economic Adjustment, the city got a grant from the Economic Development Administration (EDA) for \$15,000 (with \$5,000 in matching funds from the city) for a site feasibility study. Negotiations are still being conducted with the state for site acquisition. Meanwhile, the Industrial Development Commission is actively pursuing an industrial development program designed to expand the industrial base of the Taunton area.

4 CONRAD, MONTANA

The foundation for the Missile Site Radar (MSR) building has been covered over and all the material associated with construction has been disposed of. Two years after the treaty, the situation in Conrad is returning to normal. The effects of the cancellation in terms of employment were immediate, and were covered extensively in the previous study, which also described the programs designed to ameliorate the impacts. The situation has changed only slightly since then. Of primary interest now is the status of two local programs, one to utilize the Safeguard-constructed water line for local use, and one to convert the MSR site to an industrial park. These programs would give the area a good industrial base.

This section comprises two parts. Section 4.1 is a brief update of the status of government programs and the site closure impacts. Section 4.2 deals with the prospects of the two programs mentioned above.

4.1 SITE CLOSURE IMPACTS

The city's economy is in good condition, with improved municipal and educational facilities, a reduced tax rate, and no bonded indebtedness, largely as a result of Safeguard-associated funding. The infrastructure of the downtown area, however, is probably too large to be supported by the current population. This is due to the expansion of business activity which was prompted by the now cancelled Safeguard construction activity. If the efforts to develop the industrial site are unsuccessful, there will probably be failures among eight to ten of the less-well-managed businesses in spite of the extensive loan program of the Small Business Administration.

Two activities helped to support the downtown businesses following site closure. The first was the primary and secondary impacts from the continuing construction activity associated with the educational facilities, grain elevator, and retirement home. This construction is now completed. The other supporting activity is, of course, local agriculture. The county extension agent indicated that while the grain crop was down about 25% in 1973, due to a regional drought, the prices of grain were up 2 to 3 times the previous year's prices. These preliminary figures and conversations with local bankers indicate that the farm sector had more income to spend at local business enterprises than in the previous year.

The labor mobility program discussed in the previous study ended with a total cost of \$309,000. Eighty-five percent of these funds went directly to eligible workers with only 15 percent going to the State for program administration. A total of 677 workers were placed, 365 to other areas within Montana and the remainder throughout the United States. Table 4.1 summarizes the current status of the Small Business Administration loan

TABLE 4.1

STATUS OF SMALL BUSINESS ADMINISTRATION
EMERGENCY LOAN PROGRAM IN MONTANA

<u>Status</u>	<u>Number</u>	<u>\$ Value</u>
Granted	55	2,993,601
Pending	1	---
Declined	5	397,291

Source: SBA, Helena, Montana, March 1973.

program designed to aid local business. The terms (5-3/4% at 30 years) and intent of this program were discussed in the previous study. This program is essentially complete.

In general, local praise for the activities of the Office of Economic Assistance continues. The agency is praised for its role in minimizing governmental delays, and in assisting the town and local individuals in their efforts to deal with the government.

The result of Safeguard funding for the grammar school and the high school addition is that students have moved from an old, condemned building to modern school facilities. City population and school enrollment (1200) have now stabilized at the level existing before construction began. The existing classroom capacity is considered appropriate for the current enrollment.

Ten extra teachers were hired for the 1973-1974 school year because of the expected boom; they have since been released. Safeguard has reimbursed the district for all extra funds (Table 4.2) spent in anticipation of increased enrollment except* for the \$60,000 incurred in elementary school operations during 1972-1973.

Table 4.2 shows funds spent by Safeguard in its community assistance program. This is an update of Table 5.6 of the previous study and is current, with the exception of the \$1.5 million grant to the newly formed water district (discussed in Sec. 4.2).

*The one regret of the District Superintendent is that the curriculum, which was expanded for those two years, has now returned to its previous level.

TABLE 4.2

SAFEGUARD COMMUNITY ASSISTANCE PROGRAM, MONTANA
Through February 1974

<u>Project</u>	<u>Number of Applications</u>	<u>Funds Requested</u>	<u>Number of Projects Approved</u>	<u>Funds Approved</u>
Schools				
O&M	19	\$ 820,896	10	\$ 37,564
Construction	5	1,720,072	2	575,440
Utilities	2	1,099,070	2	981,268
Law Enforcement	1	85,000	1	81,441
Fire Protection	2	25,693	1	5,159
Hospitals	1	34,000	1	24,000
Services	9	420,678	6	160,322
Highway Construction	4	5,087,816	2	1,450,000
TOTAL	43	\$9,293,225	25	\$3,315,194

Source: Safeguard Public Information Office.

As discussed in the previous study, there was some expansion of businesses due to ABM activity. The local Chamber of Commerce estimates that there are now 139 businesses, up 11 from 1969. They further estimate that 8 to 10 of these businesses are in marginal financial condition, probably just staying in business while awaiting the outcome of the industrial development program. This overextension of local businesses results from the fact that the population has returned to the 1969 level, and that there is no current construction activity. Had the agricultural sector not had a good financial year, it is likely that the downtown area would be in more critical condition. It should be noted that this condition affects a small percentage of the town's population. The situation of most people has improved, since their taxes are down slightly from last year,* and their children are attending new schools.

*Montana Taxpayers Association, Property Tax Mill Levies, 1973-1974.

The 1973 value of building permits issued for the County was \$1.6 million, down from \$1.9 million in 1972. However, it should be noted that \$1.2 million of this 1973 figure went for just two projects, which are now completed. Table 4.3 shows the status of bank loans for the County's three banks. Decline in commercial loans in 1972 and 1973 can probably be attributed to the SBA programs, since some of those loans are now carried by the SBA.

Tables 4.4 and 4.5 show the employment and unemployment conditions of the two Counties. The unemployment rate in Toole County is returning to its previous level, while the still higher unemployment rate in Pondera County is declining but has not yet reached the pre-ABM level. Toole County is apparently experiencing some increase in petroleum activity as production from old wells is again economical.

TABLE 4.3

BANK LOANS OUTSTANDING: PONDERA COUNTY

In Thousands of Dollars

	<u>Commercial</u>	<u>% Change</u>	<u>Auto</u>	<u>% Change</u>	<u>Mobile Home</u>	<u>% Change</u>
1969	1540		905		---	
1970	1708	10.9	719	-20.5	---	
1971	3078	80.2	708	-1.5	235	
1972	2806	-8.8	887	25.3	277	17.9
June 1973	2133	-24.0	1199	35.2	234	-15.5

Source: Federal Reserve Bank of Minneapolis.

TABLE 4.4

LABOR FORCE DATA: PONDERA COUNTY

Year	Civilian Labor Force	Total Employment	Nonagri. Employment	Agri. Employment	Total Unemployment	Unemployed as Percent of Labor Force
Number of Persons, Annual Average						Percent
1970	2,850	2,730	1,850	880	120	4.2
1971	2,950	2,780	1,850	930	170	5.8
1972	3,030	2,830	1,800	1,030	200	6.6
1973	3,590	3,360	2,100	1,260	230	6.4

Source: Area Manpower Review, Montana State Employment Service, January 1974.

TABLE 4.5

LABOR FORCE DATA: TOOLE COUNTY

Year	Civilian Labor Force	Total Employment	Nonagri. Employment	Agri. Employment	Total Unemployment	Unemployed as Percent of Labor Force
Number of Persons, Annual Average						Percent
1969	2,340	2,240	1,700	540	100	4.1
1970	2,460	2,340	1,800	540	120	4.8
1971	2,760	2,570	1,840	730	190	7.1
1972	2,290	2,130	1,660	470	160	7.2
1973	2,390	2,270	1,760	500	130	5.4

Source: Area Manpower Review, Montana State Employment Service, January 1974.

4.2 FUTURE PROSPECTS

Current activity centers around alternative uses for two of the ABM-complex facilities.* These are the water line and the industrial park. The General Services Administration is in the process of disposing of the fixed property determined to be surplus to the needs of the federal government. One part of this property is the 26 miles of water line, with easements and booster stations, from the Tiber Reservoir to the MSR site. Another is the MSR site itself, including approximately 300 acres of land and the buildings described in the previous study.** The newly formed five-county Water District and the Economic Development Corporation hope that the GSA will release these properties to them at minimal cost or none.

The Water District, which was officially formed and financed following a March 6th election, plans to utilize the MSR pipeline to serve 270 area farms, the MSR industrial site, and possibly the town of Brady. As discussed in the previous paper, available water is scarce and most farmers are forced to haul domestic water from the local communities. The Water District will be financed by a \$2.3 million revenue bond and by \$1.5 million in Safeguard funds appropriated under Section 610, PL91-511, Defense Authorization Bill. This financing is considered sufficient for developing the distribution system that would be required to serve the area's needs.

The County Extension Agent (who was formerly the Area Development Agent) estimates that the average rancher spends about \$60 a month to haul water for domestic use. The Water District would supply about 5,000 gallons a month for half that amount; additional water will be available for those who desire it. The benefits of this water system will largely be realized in the quality of life for area residents; however, the system will supply water to the industrial site, and for livestock and swine lots, thus providing some economic benefits.

The Conrad Economic Development Corporation is working to attract industry to the MSR site. The Corporation hopes to acquire the site from GSA sometime in April for a minimal fee. The advantages of the site are readily available water, gas, and electricity, a wastewater disposal system, and minimal environmental impact.

* Concerning the disposition of the site equipment, the City of Conrad received only surplus gravel for use in highway construction and maintenance. Most of the equipment was allocated to Indian reservations for use in vocational training programs.

** The Perimeter Acquisition Radar (PAR) site, which consists of about 300 acres of land and three metal buildings, is also for sale. Due to its distance from Conrad, there has not been much local interest in acquiring this site.

The most significant recent development has been the proposed steel recycling plant. The Corporation has applied to the EDA for a \$25 thousand grant to finance the implementation of the development. The proposed \$15 million plant would reprocess scrap steel (from junk autos) into reinforcing bars. Initial employment would be 200, increasing to 300 as the plant reaches full capacity. This would obviously be a substantial boost to the area's economy.

An estimated 30,000 cars are junked in Montana each year. In addition, there is an accumulation of several years. This is considered adequate for the plant's needs. Montana currently spends \$700,000 a year to remove junk cars from the landscape. The steel plant would pay for the transportation of these car bodies, thus saving the State these funds. There have been some reservations expressed about transportation costs, given the distance from the Conrad rail spur. However, Burlington Northern has indicated that they would build a spur to the MSR site if the steel recycling plant was built, thus saving trucking costs.

The identity of the corporation proposing this plant is not known to local residents, as negotiations are being conducted through an intermediary. The current status of the project is that the Internal Revenue Service is reviewing an application to approve industrial revenue bonds for industrial development. While these do not financially obligate the local governments, they do have a tax-free status. Given existing interest rates, the difference between tax-free and corporate bonds is about 2 percent per year. Thus the savings to the company on a \$15 million project would be \$300,000 per year in interest. It is not known if the approval of industrial revenue bonds is critical to the development of the plant.

Thus, in summary, the status in Montana is one of energetic local activity working to develop an economic base. In the long run this type of industrial development will probably form a more stable economic base than the ABM development would have.

5 REVISIONS TO PROJECTED SALT SAVINGS

The previous report analyzed the treaty's impact on Ballistic Missile Defense (BMD) costs. At the time the report was written, there were many uncertainties in the costs of BMD component systems. The passage of the FY 1974 budget has removed some of those uncertainties.* The previous paper estimated that SALT-induced BMD "savings" would be about \$5.7 billion through 1988.** Current data indicate a probable decrease in spending for advanced research. Using these data, it is now estimated that BMD-related savings will be about \$6.5 billion through 1988.

There is some debate over whether the reductions in the Advanced Ballistic Missile Defense Agency budget were brought about by SALT treaty restrictions or by independent Congressional action. Since the treaty specifically outlaws deployment of systems like the Light Area Defense System (LADS), Congressional sentiment was against advanced research in this area. The Army's position was that research should be continued as a hedge against treaty abrogation, even though deployment of that system was banned. The previous paper argued that reductions in research on banned projects could be attributed to the treaty. This was also the position that Congress took when it cancelled the LADS program.

In Table 9.2 of the previous paper, it was estimated that post-SALT BMD expenditures would amount to \$5.4 billion through 1988. Since that time, Congress has eliminated the \$40 million appropriation for ABMDA's LADS program. The 1974 ABMDA budget is \$61.5 million, down from about \$110 million in 1963. It was previously projected that ABMDA spending would continue at a constant level. This projection assumes continued spending at the 1974 budget level, that is, without the LADS program. This results in a revision of the estimated total value to be spent on advanced research through 1988 from \$2.073 billion to \$1.190 billion, a difference of \$883 million. When added to the previous projected savings, this increases the savings to \$6.582 billion.

* In addition to the FY 1974 budget appropriations, the FY 1975 budget requests were examined and compared to previous budget requests for trend variations.

** "Savings" depend on what year's dollars one uses; if costing is done by assuming some inflation rate, "savings" appear higher than if done in constant dollars. We adopt here the convention of working in current dollars up to FY 78 using the OASD(SA) price index adjustment and using constant FY 78 dollars thereafter, to be consistent with numbers issued by the Safeguard System Command.

A look at Safeguard and Site Defense authorizations for 1974 (\$341 million and \$110 million) and requests for 1975 (\$60 million and \$160 million) does not justify any further revisions in the projected savings, since these amounts are consistent with the projections shown in the past work.

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